



EAST KENTUCKY POWER COOPERATIVE

RECEIVED

DEC 15 2004

PUBLIC SERVICE
COMMISSION

December 15, 2004

HAND DELIVERED

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Re: PSC Case No. 2004-00423

Dear Ms. O'Donnell:

Please find enclosed for filing with the Commission in the above-referenced case an original and ten (10) copies of the Petition for Confidential Treatment of Information of East Kentucky Power Cooperative, Inc., relating to the responses to the Commission Staff's Data Requests dated December 7, 2004. A set of confidential pages from those responses is included with the original Petition, and ten redacted copies of the responses are enclosed.

Very truly yours,

A handwritten signature in cursive script that reads "Charles A. Lile".

Charles A. Lile
Senior Corporate Counsel

Enclosures

Cc: Elizabeth E. Blackford, Esq.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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DEC 15 2004

THE APPLICATION OF EAST KENTUCKY)
POWER COOPERATIVE, INC. FOR A)
CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY, AND A SITE) CASE NO. 2004-00423
COMPATIBILITY CERTIFICATE, FOR THE)
CONSTRUCTION OF A 278 MW (NOMINAL))
CIRCULATING FLUIDIZED BED COAL)
FIRED UNIT IN MASON COUNTY,)
KENTUCKY)

PUBLIC SERVICE
COMMISSION

**PETITION FOR CONFIDENTIAL
TREATMENT OF INFORMATION**

Comes East Kentucky Power Cooperative, Inc., hereinafter referred to as “EKPC”, and petitions the Public Service Commission, hereinafter referred to as the “Commission”, pursuant to 807 KAR 5:001 Section 7 and KRS §61.878 and related statutes, for confidential treatment of certain designated information contained in the response to Request No. 5 of the Commission Staff's Data Request in this case dated December 7, 2004. As grounds for this Petition, EKPC states as follows:

1. 807 KAR 5:001 Section 7 authorizes confidential treatment of information submitted to the Commission based on grounds provided in KRS §61.870 et seq. EKPC asserts that the information identified in the abovementioned Data Request response in this case are records generally recognized as proprietary and confidential which, if made public, would permit an unfair commercial advantage to competitors of EKPC, as more fully explained hereinbelow. As such, this information should be granted confidential treatment pursuant to 801 KAR 5:001 Section 7 and KRS §61.878 (1)(c)(1).

2. Information included in the response to PSC Data Request No. 5, would provide EKPC competitors in the bulk power market with an unfair competitive advantage. Disclosure of the fuel price forecast information for the Gilbert Unit and the proposed Unit 4 at Spurlock Station would provide detailed projections of fuel costs for EKPC's circulating fluidized bed ("CFB") generating facilities, as well as other detailed market information which can be used to determine transportation costs for EKPC's fuel requirements. This would unfairly provide those competitors with the ability to project EKPC's costs of fuel and fuel transportation for its CFB units, and underbid EKPC for surplus power sales. Such information could also be used by potential fuel suppliers to manipulate bids, resulting in higher fuel costs for EKPC and impacting its competitive position in the surplus power market.

3. EKPC also believes that all of the identified confidential information is protected from public disclosure pursuant to KRS §61.878 (1)(c)(2)(c) as confidential and proprietary records disclosed to the Commission in conjunction with its regulation of commercial enterprise, apart from any unfair commercial advantage public disclosure would provide to EKPC competitors.

4. All of the identified confidential information is treated as confidential and proprietary by EKPC. This information is not known outside EKPC, except for information developed by EKPC's consultant and submitted on a confidential basis, and it is distributed within EKPC only to those with a need to know or use it for EKPC business purposes.

5. A copy of the response to PSC Request No. 5, with confidential information highlighted or otherwise indicated, is attached hereto. Ten copies of that response, with confidential information redacted, are also enclosed.

WHEREFORE, Applicant respectfully requests the Commission to grant confidential treatment to the identified information and deny public disclosure of the information pursuant to 807 KAR 5:001 Section 7.

Respectfully submitted,

DALE W. HENLEY



CHARLES A. LILE

ATTORNEYS FOR EAST KENTUCKY
POWER COOPERATIVE, INC.
P. O. BOX 707
WINCHESTER, KY 40392-0707
(606) 744-4812

CERTIFICATE OF SERVICE

This is to certify that an original and ten copies of the foregoing Petition for Confidential Treatment of Information in the above-referenced case were delivered to Elizabeth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601, and copies were mailed to Parties of Record in this case, on this 15th day of December 2004.



CHARLES A. LILE

(Spur4-pet-confid2)



EAST KENTUCKY POWER COOPERATIVE

December 15, 2004

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Charles A. Lile
Senior Corporate Counsel

Enclosures

Cc: Elizabeth E. Blackford, Esq.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

THE APPLICATION OF EAST KENTUCKY)
POWER COOPERATIVE, INC. FOR A)
CERTIFICATE OF PUBLIC CONVENIENCE)
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COMPATIBILITY CERTIFICATE, FOR THE)
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Respectfully submitted,

DALE W. HENLEY



CHARLES A. LILE

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POWER COOPERATIVE, INC.
P. O. BOX 707
WINCHESTER, KY 40392-0707
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CHARLES A. LILE

(Spur4-pet-confid2)

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER)
COOPERATIVE, INC. FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY, AND)
A SITE COMPATIBILITY CERTIFICATE, FOR) CASE NO. 2004-00423
THE CONSTRUCTION OF A 278 MW (NOMINAL))
CIRCULATING FLUIDIZED BED COAL-FIRED)
UNIT IN MASON COUNTY, KENTUCKY)

FIRST DATA REQUEST OF COMMISSION STAFF
TO EAST KENTUCKY POWER COOPERATIVE, INC.

Pursuant to 807 KAR 5:001, Commission Staff requests that East Kentucky Power Cooperative, Inc. ("East Kentucky") file the original and 5 copies of the following information with the Commission on or before December 15, 2004, with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. In Exhibit 3, page 6, East Kentucky's additional base load capacity needs are shown as 275 MW by April 2008 and an additional 275 MW by December

2008. Has East Kentucky considered the option of constructing one 550 MW unit to meet all its needs instead of the proposed 278 MW unit? Explain in detail whether it is feasible to construct one 550 MW unit and provide a 20-year present value analysis supporting your conclusion.

2. Refer to Exhibit 4, page 7 of East Kentucky's application. In this independent economic ranking by EnerVision of proposals for base load capacity, the results are shown in \$ / MWh.

a. Did either EnerVision or East Kentucky perform an economic analysis based on the present value revenue requirements associated with the different base load proposals? If no, explain why not. If yes, provide the results of the analysis.

b. The text of the EnerVision analysis in Exhibit 4 seems to indicate that East Kentucky performed its own analysis. Is it correct that a separate economic analysis was performed by East Kentucky? If no, explain why not.

3. In Exhibit 7, pages 3-4, the Prepared Testimony of Roy M. Palk refers to Warren Rural Electric Cooperative Corporation ("Warren RECC") becoming a member of East Kentucky as of April 1, 2008, and East Kentucky's "commitment to Warren." Identify and describe the reasons why East Kentucky decided to make such a commitment and chose to have Warren RECC become a member.

4. In Exhibit 8, page 4, the Prepared Testimony of David G. Eames refers to the proposed financing for the Spurlock 4 project through the RUS, with the loan amortized over a period of up to 35 years. Should the term of the financing (up to 35 years) dictate the number of years over which the present value revenue requirements

of the Spurlock 4 project, and other proposals received by East Kentucky, are evaluated? If no, explain why not.

5. In Exhibit 12, page 2, the Prepared Testimony of Jerry Bordes refers to a fuel cost study performed for East Kentucky by Energy Venture Analysis, Inc. ("EVA"), which Mr. Bordes states formed the basis for the fuel costs included in Exhibit 6 of the application, the "Five Year Annual Project Cost Estimate." Provide the results of the EVA study or the report that resulted from it.

6. Refer to Exhibit 1, page 3, of East Kentucky's application, the note in the resolution regarding "Fleming-Mason's concern as to the effect, if any, which a partial requirements contract might have in financing." Explain in detail both the basis for the concern and whether it has been alleviated.

7. Identify and describe East Kentucky's ability to supply the load of Warren RECC starting April 1, 2008 if Spurlock 4 is not operational by that date.

8. Describe in detail the steps East Kentucky has taken to date to supply Warren RECC if Spurlock 4 is not operational by April 1, 2008. If no steps have been taken to date, identify the expected dates when such steps will need to be taken and describe the steps to be taken.



Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED December 7, 2004

cc: All Parties

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**THE APPLICATION OF EAST KENTUCKY POWER
COOPERATIVE, INC., FOR A CERTIFICATE OF
PUBLIC CONVENIENCE AND NECESSITY, AND A) CASE NO.
SITE COMPATIBILITY CERTIFICATE, FOR THE) 2004-00423
CONSTRUCTION OF A 278 MW (NOMINAL)
CIRCULATING FLUIDIZED BED COAL FIRED UNIT
IN MASON COUNTY, KENTUCKY**

**RESPONSES TO COMMISSION STAFF INITIAL REQUESTS
DATED DECEMBER 7, 2004**

EAST KENTUCKY POWER COOPERATIVE, INC.,
PSC CASE NO. 2004-00423
INITIAL INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 12/07/04

REQUEST 1

RESPONSIBLE PARTY: James Shipp

REQUEST 1. In Exhibit 3, page 6, East Kentucky's additional base load capacity needs are shown as 275 MW by April 2008 and an additional 275 MW by December-2-Case No. 2004-00423 2008. Has East Kentucky considered the option of constructing one 550 MW unit to meet all its needs instead of the proposed 278 MW unit? Explain in detail whether it is feasible to construct one 550 MW unit and provide a 20-year present value analysis supporting your conclusion.

RESPONSE 1. There are several reasons that EKPC has chosen not to construct one 550 MW unit. It is certainly feasible to construct a pulverized coal unit of 550 MW or larger. However, the technology chosen by EKPC utilizes a circulating fluidized bed boiler. This technology was chosen primarily for its fuel flexibility and low emissions. The current state of the art for this technology is a capacity of about 278 MW (net). A design with two boilers and one generator is feasible, but in this case one 278 MW unit can be added at Spurlock Station with no additional transmission facilities other than to interconnect the unit. The larger design would require a substantial amount of transmission facilities to be built and there would be no physical space at the site for future generation to take advantage of any excess transmission capacity. Another reason for building the current design is that there is better reliability with two smaller units than one large unit. In addition, two smaller units will allow EKPC to geographically diversify its baseload generation.

EAST KENTUCKY POWER COOPERATIVE, INC.,
PSC CASE NO. 2004-00423
INITIAL INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 12/07/04

REQUEST 2

RESPONSIBLE PARTY: David G. Eames

REQUEST 2. Refer to Exhibit 4, page 7 of East Kentucky's application. In this independent economic ranking by EnerVision of proposals for base load capacity, the results are shown in \$/MWh.

REQUEST 2a. Did either EnerVision or East Kentucky perform an economic analysis based on the present value revenue requirements associated with the different base load proposals? If no, explain why not. If yes, provide the results of the analysis.

RESPONSE 2a. Yes. The results (Average \$/MWh) shown in Exhibit 4 are based on the present value of revenue requirements divided by the total energy produced over the evaluation period for each proposal. This methodology was used because of the variance in peak output of the different units evaluated.

REQUEST 2b The text of the EnerVision analysis in Exhibit 4 seems to indicate that East Kentucky performed its own analysis. Is it correct that a separate economic analysis was performed by East Kentucky? If no, explain why not.

RESPONSE 2b. EKPC did perform its own analysis independent of EnerVision. EKPC staff discussed with EnerVision various aspects of the proposals to ensure that all appropriate costs were included in the evaluation. It was necessary for EKPC staff to

provide EnerVision with certain cost information such as estimates of the costs of transmission facilities to locate generation at different sites. EKPC and EnerVision both participated in conference calls with bidders as necessary.

EAST KENTUCKY POWER COOPERATIVE, INC.,
PSC CASE NO. 2004-00423
INITIAL INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 12/07/04

REQUEST 3

RESPONSIBLE PARTY: Roy M. Palk

REQUEST 3. In Exhibit 7, pages 3-4, the Prepared Testimony of Roy M. Palk refers to Warren Rural Electric Cooperative Corporation (“Warren RECC”) becoming a member of East Kentucky as of April 1, 2008, and East Kentucky’s “commitment to Warren.” Identify and describe the reasons why East Kentucky decided to make such a commitment and chose to have Warren RECC become a member.

RESPONSE 3. EKPC believes that there are benefits to Warren joining the EKPC system. A larger EKPC system should benefit from economies of scale in construction and fuel procurement and by reducing the average administrative and general expenses, and spreading fixed costs over a significantly larger base over the life of the assets and beyond. EKPC will be stronger financially, with a larger revenue base and increased value of plant in service. With a larger generating fleet and larger load, EKPC will be better able to follow its load and maintain desired system frequency per NERC criteria. For example, the increased Warren load will increase L sub D (the value by which EKPC may deviate from matching its load and generation and not be in violation of its NERC CPS 2 criteria) by approximately 10 percent. This is because more generating units can provide faster system response to load fluctuations, and, in addition, loads such as Gallatin steel will represent a smaller proportion of the total EKPC load. The end result is that EKPC will be able to better handle load-following for existing and future large industrial loads. EKPC’s overall generating system reliability will be improved with a

larger generating fleet where none of the presently planned generating units are larger than the largest existing unit on the system.

The commitment to Warren is also a commitment to help Warren's cooperative members. Warren's decision to join EKPC was primarily based on three factors. Those factors were (1) the rate disparity between TVA distributors and the Kentucky cooperatives and municipalities in their area, (2) the opportunity to become a member of a G&T with a voice in their future, and (3) the opportunity to have an equity interest in their power supply.

**EAST KENTUCKY POWER COOPERATIVE, INC.,
PSC CASE NO. 2004-00423
INITIAL INFORMATION REQUEST RESPONSE**

COMMISSION STAFF'S REQUEST DATED 12/07/04

REQUEST 4

RESPONSIBLE PARTY: David G. Eames

REQUEST 4. In Exhibit 8, page 4, the Prepared Testimony of David G. Eames refers to the proposed financing for the Spurlock 4 project through the RUS, with the loan amortized over a period of up to 35 years. Should the term of the financing (up to 35 years) dictate the number of years over which the present value revenue requirements Case No. 2004-00423 of the Spurlock 4 project, and other proposals received by East Kentucky, are evaluated? If no, explain why not.

RESPONSE 4. No. Mr. Eames' response was only intended to reference the fact that RUS will loan funds for coal-fired generation projects for a term of up to 35 years, but the maximum term is not always granted. The length of the loan is normally matched to the economic life of the assets being acquired. However, the length of the Wholesale Power Contract ("WPC") between EKPC and its member cooperatives may dictate the length of the loan. The loan length will not usually be allowed to exceed the end of the WPC contract term. Therefore, the economic life of the project being evaluated, as opposed to the loan term, is normally the correct period over which to calculate the net present value revenue requirements.

EAST KENTUCKY POWER COOPERATIVE, INC.,
PSC CASE NO. 2004-00423
INITIAL INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 12/07/04

REQUEST 5

RESPONSIBLE PARTY: Jerry Bordes

REQUEST 5. In Exhibit 12, page 2, the Prepared Testimony of Jerry Bordes refers to a fuel cost study performed for East Kentucky by Energy Venture Analysis, Inc. ("EVA"), which Mr. Bordes states formed the basis for the fuel costs included in Exhibit 6 of the application, the "Five Year Annual Project Cost Estimate." Provide the results of the EVA study or the report that resulted from it.

RESPONSE 5. Attached is the Spurlock Delivered Price Forecast for fuel delivered to Spurlock Station for Circulating Fluidized Bed Units (Gilbert Unit and Spurlock 4). The forecast includes a probable, low, and high case.

**SPURLOCK DELIVERED PRICE FORECAST
LOW CASE
(Nominal Dollars)**

(Gilbert)

EVA Forecast

EKPC adjusted EVA forecast below

Delivered Price (\$/MMBtu)

Region

Btu/lb
#SO2/MM
% Ash
Trans.

2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
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REDACTED

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11.2

**SPURLOCK DELIVERED PRICE FORECAST
HIGH CASE
(Nominal Dollars)**

(Gilbert)

EVA Forecast
EKPC adjusted EVA forecast below

Delivered Price (\$/MMBtu)

Region ()
Btu/lb ()
#SO2/MMBtu ()
% Ash ()
Trans. ()

2003
2004
2005
2006
2007
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11.3

REDACTED

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EAST KENTUCKY POWER COOPERATIVE, INC.,
PSC CASE NO. 2004-OO423
INITIAL INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 12/07/04

REQUEST 6

RESPONSIBLE PARTY: David G. Eames

REQUEST 6. Refer to Exhibit 1, page 3, of East Kentucky's application, the note in the resolution regarding "Fleming-Mason's concern as to the effect, if any, which a partial requirements contract might have in financing." Explain in detail both the basis for the concern and whether it has been alleviated.

RESPONSE 6. Two member systems, one of which is Fleming-Mason Energy Cooperative, have an interest in pursuing a partial requirements contract with EKPC, whereby they could purchase a portion of their future load growth from another power source. This has been done with other G&T cooperatives around the country. EKPC feels this will not have any impact on its financing, as RUS has dealt with this issue before.

EAST KENTUCKY POWER COOPERATIVE, INC.,

PSC CASE NO. 2004-OO423

INITIAL INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 12/07/04

REQUEST 7

RESPONSIBLE PARTY: David G. Eames

REQUEST 7. Identify and describe East Kentucky's ability to supply the load of Warren RECC starting April 1, 2008, if Spurlock 4 is not operational by that date.

RESPONSE 7. EKPC plans to build additional peaking and baseload capacity in the 2007 to 2009 time period for power requirements of the current member systems, but will have no excess capacity to serve Warren in 2008 if the Spurlock 4 Unit is not available. Market purchases would be required to supply Warren until new capacity was available.

EAST KENTUCKY POWER COOPERATIVE, INC.,
PSC CASE NO. 2004-00423
INITIAL INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 12/07/04

REQUEST 8

RESPONSIBLE PARTY: **David G. Eames**

REQUEST 8. Describe in detail the steps East Kentucky has taken to date to supply Warren RECC if Spurlock 4 is not operational by April 1, 2008. If no steps have been taken to date, identify the expected dates when such steps will need to be taken and describe the steps to be taken.

RESPONSE 8. EKPC has taken no steps at this point to supply Warren if Spurlock 4 is not operational by April 1, 2008. EKPC's obligations to supply Warren are contingent on the Commission's approval for the generating and transmission facilities that are required for such service. Assuming that the Commission approves the Certificate request for Spurlock 4, EKPC will closely monitor the construction schedule of Spurlock 4. If it becomes apparent that commercial operation of Spurlock 4 would be delayed beyond April 1, 2008, EKPC would evaluate the type, quantity, and potential term of market purchases required to supply Warren until the Unit becomes operational.